

EPA Development Support

Possible scenarios for EPA-related support mechanisms



ECDPM

This *EPA Development Support InBrief* series concentrates on the reforms, institutional development, accompanying measures and financial support necessary to enable African, Caribbean and Pacific (ACP) countries and regions to benefit from the potential opportunities that a new trade regime such as economic partnership agreements (EPAs) with the European Union (EU) could offer for their sustainable development. www.ecdpm.org/epasupportinbriefs

Financing EPA-related support

African, Caribbean and Pacific (ACP) countries and regions are experiencing significant capacity constraints, which impede their ability both to negotiate economic partnership agreements (EPAs) with the European Union (EU) and to adequately implement an EPA. In order for ACP countries and regions to take advantage of the potential benefits of an EPA, they need to engage in complementary reforms and adopt appropriate accompanying measures, address their supply side constraints and the competitiveness of their products.

These constraints are well acknowledged in Europe¹. However, despite numerous formal requests from the ACP to include development support as part of the EPA negotiations, the European Commission has so far refused such an approach, arguing notably that:

- EPA negotiations as foreseen in the Cotonou Agreement were about trade and trade-related issues only;
- development assistance is already covered by the Cotonou Agreement through the European Development Fund (EDF);
- the European Commission does not have the mandate from EU member states to enter negotiations or agreements on development assistance.

This situation does not satisfy the ACP, which at the last ACP Council of Minister decided:

- To call on the European Union and its Member States to make a binding commitment for additional resources beyond the 10th EDF to cover EPA related costs. This commitment shall be factored into the legal text of each EPA;
- To call for the establishment of an additional EPA Financing Facility as envisaged in Declaration XV of the revised Cotonou Agreement, at national and regional levels, to address the adjustment costs and support the EPA process and implementation over time and urge the Member States to contribute to such a facility in the context of the commitment made to scale up Official Development Assistance (ODA) following the Monterrey Consensus on International Financing for Development.²

Continuous wrangling over these issues surrounding the development support to EPA has hampered progress in all other areas of negotiation. The current debate over the merit of additional and possible binding support to EPAs, and subsequently on the appropriate scenarios and possible mechanisms to finance accompanying measures to EPA is gaining centre stage in the talks among the ACP and between the ACP and the EU.

This discussion is closely intertwined with two other international debates and processes, namely the *Paris Declaration on Aid Effectiveness*³ and the Aid for Trade initiative at the World Trade Organization (WTO) with the recent *Recommendations of the WTO Task Force on Aid for Trade*⁴. It is likely that the recommendations emanating from those important policy documents will serve as the basis for internationally agreed *guiding principles* for any new aid for trade initiative, including the discussions on the development support to EPA.

This trend is reinforced by two positions emerging from Europe. Firstly, many EU policy-makers insist that there will be no additional financial envelope specific to EPA and the related adjustment costs could be addressed through increased effectiveness of existing development support. Secondly, EU member states and institutions pledge to step up their efforts on trade-related development assistance with a view to facilitate the integration of all developing countries into the multilateral trading system. The European Commission committed to provide € 1 billion a year of trade related aid by 2010 (a pledge almost achieved already in 2005), and the EU member states undertook a similar commitment⁵, which would bring the collective contribution from the European Union to € 2 billion per year.

In this context, this *InBrief* aims at clarifying the debate on the various dimensions which should be taken into consideration when identifying possible scenarios and mechanisms to finance accompanying measures and reforms to implement an EPA. The following constitutes a preliminary attempt to set the framework for exploring possible scenarios for the establishment of such mechanisms and analyzing their characteristics.

A complex debate: focusing on possible mechanisms

The debate on how to support adjustment and accompanying measures to EPA is extremely complex as it relates to four key questions:

- **what to fund:** needs to be addressed, types of programmes and scope of an EPA facility;
- **how much:** levels of financing (EDF amounts, additional funding, ...);
- **how to fund:** by whom, mechanisms, procedures, modalities, governance,...;
- **what commitments:** binding or not, in or outside an EPA legal text.

These four dimensions are strongly interconnected.

The 'what' and 'how much' will depend on the needs identified by the ACP. Most ACP countries have already gone through the process of needs assessment linked to trade liberalization in the context of the Integrated Framework (IF) or Joint Integrated Technical Assistance Programme (JITAP). The actual costing and translation into specific capacity building programmes and coherent policies often remains a major challenge. The processes of identifying the priorities in terms of economic and social adjustment as well as the content of the specific policies are decisions for the ACP governments and stakeholders.

In terms of levels of financing, getting a common understanding with the EU on the principle of additional funding for EPAs is a priority for the ACP. The group believes that the current levels of funds provided by the 10th EDF as well as the delivery mechanism are not adequate for the EPA-related needs. On the other hand the funding 'commitments' will depend on the ability and the political will of the EU to address EPA related development concerns.

This *InBrief* abstracts from these important debates on the levels of funds required for EPA adjustment (which largely depends on the scope) as well as on the merits of having additional funds (to EDF) and only briefly touches upon the legal binding of commitments in the EPAs. The focus of this *InBrief* is on the various options of 'how' to channel EPA related support, given that the effectiveness of the delivery mechanism is at least as important as the amount of funding. The purpose of this *InBrief* is twofold:

- to identify some of the criteria that have to be taken into consideration for assessing any support mechanism, and
- to outline possible scenario's for channelling EPA development support.

Various dimensions to assess scenarios

Different dimensions are relevant and should be analysed when discussing the design of an EPA-related support mechanism. These relate to the columns of Table 1.

Source of funding

Funding for trade capacity building, accompanying measures and the implementation of EPAs could come either from:

- the European Community to the ACP in the context of the Cotonou Agreement, i.e. the 10th European Development Fund (EDF) currently being programmed; or
- other parallel or complementary sources :
 - the European Community budget,
 - EU Member States,
 - Other donors (multilateral donors, countries, foundations,...),
 - Capital market, private sector financing.

About € 22 billion are available for the overall development assistance under the 10th EDF for the period 2008-2013. Therefore support to EPAs could be addressed by the 10th EDF using the current programming exercise. Obviously, identifying support to EPA implementation as a focal sector in the National and Regional Indicative Programmes (NIPs/RIPs) will be in competition with other national and regional development priorities.

In 2005, both the European Commission⁶ and the EU Member States⁷ committed to provide a total of € 2 billion per year of trade related aid by 2010. More generally, the EU as a whole has committed to reach

the 0.56% GNI ODA target in 2010, which means almost doubling its ODA in absolute terms⁸. These different commitments could be translated into additional funding sources for EPAs, beyond the 10th EDF.

The use of various sources of funding will have implications on the modalities, procedures, complementarity, transparency, accountability, ownership and coordination of the EPA related assistance.

At what level should funds be managed?

Funds can either be channelled at the national, regional or all-ACP levels. This goes both for EDF Funds and other sources of funding such as EU Member States bilateral aid. Obviously, if the Funds are managed at a national or regional level, there will be more ownership on the ACP side of the management of those funds, given that they are managed closer to/by the ultimate beneficiary. All-ACP funds might be useful instruments to address cross-cutting issues but the issue of the ownership would need to be examined. Regional mechanisms⁹ offer the opportunity to strengthen regional integration processes, while national mechanisms are more prone to link in with national priorities. However, for funds to be managed at the regional level, minimal capacities in terms of planning, reporting and financial management would be required, as well as a strong legitimacy of this regional organization towards its Members. These factors are likely to vary depending on the regions.

Other questions related to the appropriate level of delivering or managing funds include: which modalities can be used at which level? What flexibility exists; e.g. would an all-ACP Facility be entirely managed centrally or could it be used to channel part of the funds to existing national/regional mechanisms? What are the coordination needs and fora at each level? How would the different levels be articulated? In case of different sources of funding, what level is the most appropriate to ease the coordination and pooling of funds? What level allows for the participation of the private sector? All these issues bear on the effectiveness of support and will need to be analysed in the different scenarios.

Scope of the EPA-related needs to be funded

Arguably, the mechanism and modalities of assistance to EPAs crucially depend on the type of EPA-related adjustments and reforms to be addressed. For instance, for EPA-related adjustments that have cross-border effects, a regional approach, such as a regional fund, might be more appropriate than a purely national one, as in the case of for instance of the development of trade-related infrastructures (e.g. transport, telecommunications), regional regulatory and institutional frameworks, etc. Grants might be preferable for regulatory adjustments, whereas loans might be more appropriate for private sector support and infrastructure development. Budget support might be envisaged for temporary accompanying measures to mitigate the loss of fiscal revenues resulting from an EPA, whereas project funding might be more desirable to strengthen the capacity to comply with certification and safety standards.

It is therefore of prime importance to match the mode of EPA assistance to the thematic scope and type of needs to be addressed. It would be misleading to seek a 'one-fit-all' mechanism of EPA-related assistance. It follows that the identification of appropriate modalities of support for EPA-related implementation and adjustments to a large extent depend on a prior needs assessment.

Effectiveness of support to EPAs

While a lot of the attention has focussed on getting additional resources for the EPA implementation, both the ACP and the EU recognise the importance of the effectiveness of EPA support delivery and absorption capacity.

In line with the international consensus that has emerged through the Rome Declaration on harmonization and alignment in 2003 followed by the Paris Declaration on aid effectiveness in 2005, a certain number of principles need to be applied in order to have an effective delivery of aid: predictability, timely and effective delivery, sustainability, flexibility. Applied to the discussion on EPA related assistance, the main issues in terms of aid effectiveness would be *ownership, alignment and coordination*. These principles have to be fully integrated in the assessment of any EPA support scenario.

a) Ownership and management structure

In terms of ownership, the first question to be raised while analysing the different scenarios is whether these allow for the EPA related support to be aligned to the recipient's defined priorities. Beneficiaries' needs and programmes of reforms could be listed in documents such as Poverty Reduction Strategy Papers (PRSPs), the Diagnostic Trade Integration Study (DTIS) of the Integrated Framework (IF) or Joint Assistance Strategy (JAS). The degree of alignment of donor support under each scenario would have to be taken into consideration.

Looking at the mechanisms that could be used, different issues arise when it comes to ensuring a strong ownership of the mechanism by beneficiaries. Both the extent of involvement and level at which the funds are managed play an important role in the effectiveness of the support. This is the case when considering national versus regional bodies, as well as the involvement of private sector in programmes that concern them. Ownership of a specific mechanism by the beneficiaries can be ensured in different ways: involvement in the decision making process, initial contribution in order to access the Fund, use of the beneficiary's own programming and reporting systems and procedures. Aspects such as the management structure, the decision making process, the identity of the shareholders (including private sector), the use of beneficiary's own procedures will have to be analysed in relation with the ownership issue.

b) Aid modalities and procedures

On the basis of the principles laid down in the Paris Declaration, donors should preferably support the beneficiaries through predictable aid, taking the form of programmatic support and using whenever it is possible their own programming and monitoring system as well as procedures. This allows for beneficiary countries/regions to strengthen their capacities in using their own systems instead of diverting those sometimes scarce capacities in getting to know other – and sometimes various – donor systems. This means that substantial multi-annual, predictable aid from donors should preferably take the form of budget support or programmatic support. EU Member States and the European Commission have undertaken specific commitments in order to improve the quality of their aid in years to come.

In March 2005, the European Union has made some additional commitments to the Paris Declaration itself and has pledged in the future:

- to channel 50% of government assistance through country systems,
- to double the percentage of assistance provided through budget support or sector wide approach
- to avoid implementing new project-management units,
- to reduce the number of non-coordinated missions in the field by 50%
- to provide all its assistance to the strengthening of capacities (training and transfer of know-how) through coordinated projects by increasing the use of multi-donor agreements.

However, supporting countries/regions with these modalities pre-supposes that they meet minimal requirements in terms of planning and reporting capacities as well as financial management.

The following questions will thus have to be analysed in the different scenarios: will the funds be delivered in a timely and predictable manner? Do the modalities and procedures allow for the use of the beneficiary's own systems and procedures? If it is not the case, are there existing mechanisms that can be used? Or could new mechanisms be created to harmonize the systems used to channel the funds, e.g. contributing to basket-funding? Will the modality be flexible enough to allow for co-funding?

c) Coordination and institutional issues

The coordination issue is strongly linked to the multiplicity of sources of funding: if the EDF remains the only source of funding for EPAs related needs, the issue will be less complex to address. In that case, the main issue would be the coordination of the dialogue with international partners on the implementation of EPAs and the link to the Aid for Trade.

In the case of multiple sources of funding, coordination is required at different levels from dialogue to programming, monitoring, to modalities chosen. In terms of programming and monitoring, for each scenario one will have to consider to what extent existing coordination frameworks can be used. For example the (Enhanced) Integrated Framework could be used as coordination mechanisms for programming support to EPA related needs and coordinate with the broader Aid for Trade agenda. In the EU

context, the common framework for drafting country strategy papers and principles towards joint multi-annual programming could provide an appropriate instrument in terms of programming and monitoring EU support to EPAs.

d) Predictability

A key issue in the framework of the general debate on aid effectiveness is the predictability of funding. According to the Paris Declaration principles, recipient countries/regions should benefit from substantial multi-annual, predictable aid from International Partners. This support should ideally be aligned with the country/region's own programming cycle. In the framework of EPA negotiations, this is linked to the issue of predictability of EC/EU support and notably the fact that the 10th EDF only covers the 2008-2013 period, while EPAs will be implemented over more than a decade. It also relates to the issues of the scope, sequencing and actual delivery of the aid: how to ensure that the appropriate type of assistance is timely and effectively delivered during the implementation phase of an EPA? For instance, in the case of the EDF, the actual availability of funds at the beginning of 2008 is not certain at this stage. Given that it took two and a half years to ratify the 9th EDF financial protocol, similar delays in the ratification of the 10th EDF would mean that the 10th EDF funds could only be committed at the beginning of 2009 and disbursed at the beginning of 2010.

Legal status of mechanism & enforceability

Possible legal frameworks are an important dimension of the debate over different scenarios for an EPA-related support mechanism and should be discussed in relation to both the Cotonou Agreement and the EPA legal texts.

The current position of the EU is that it does not want to enter into binding commitment on EPA trade-related assistance. EU trade negotiators insist that while EPAs are about development, the negotiations are about the trade dimension of development (i.e. the trade pillar of the Cotonou Agreement) and not the EU development assistance to the ACP (i.e. the development support of the Cotonou Agreement). The ACP have emphasized the importance of binding development assistance commitments to match their legally binding trade-related commit-

ments under an EPA. Such legal aspects of the EPA agreement and the relationship of any EPA-related support mechanism with existing development cooperation instruments, processes and institutions of the ACP-EU partnership will also bear consequences on the enforceability of any decision taken by the parties on disbursement of EPA support funds and actual channels of delivery.

Possible scenarios

A preliminary assessment of the above dimensions leads to conclude that there are numerous scenarios for the design of an EPA-related support mechanism. A one-fit-all solution is very unlikely and reducing this discussion to 'status quo *versus* the creation a new special EPA fund' is not very helpful. The scenarios sketched below are illustrative only, and represent different outcomes of the ongoing debate over the merit of establishing an EPA Adjustment Mechanism. Their differences relate to whether a new financing mechanism will be created to support EPA adjustment and if so whether an existing delivery mechanism will be used or a new one will be created. *A priori* the following non-exhaustive list of scenarios can be envisaged. The merits of each one will have to be assessed according to the dimensions discussed above. But in any event appropriate support to EPAs will most likely require a combination of some of the scenarios, since different ACP regions as well as different areas of EPA-related adjustment needs will require different solutions and assistance mechanisms (as argued above). These scenarios are listed in table 1.

No specific EPA-related support mechanism

A first set of scenarios refers to cases where the development needs emerging from EPA will be addressed in the context of broader international initiatives to strengthen aid effectiveness or through existing instruments of the ACP-EU partnership, without the establishment of a new financing mechanism specific to EPAs.

NIPs/RIPs

Key features

The minimal option is to rely exclusively on the existing funding and mechanisms of the

ACP-EU cooperation. In essence this will require any development assistance for EPAs to be programmed and channelled through the National and Regional Indicative Programmes (NIPs/RIPs), financed under 10th EDF, with possibly some funding from the intra-ACP envelope.

Some elements for discussion

The 10th EDF programming guidelines indicated that NIPs should include support to the implementation of EPAs and other multilateral trade reforms with a specific focus on the elimination of supply side constraints. RIPs are also supposed to have a component to support regional integration and trade liberalisation. The 10th EDF programming process is on-going and draft Country and Regional Strategy Papers (CSPs/RSPs) will start being reviewed from November onwards by EC headquarters. Support to the implementation of EPAs is only one among many national development priorities and ACP countries have stressed that scarce EDF resources could not cover all EPA adjustments costs given the importance of national development priorities. ACP countries have also regularly pointed out the limitations of the EDF in terms of timely and effective delivery of aid. Other issues to be considered under this scenario include the modalities, the cumbersome procedures, the capacity of NAOs, the coordination with national development strategy, the coordination with other donors, the predictability of funding, and what after 2013?

Coordination/ monitoring Body only

Key features

Under this scenario no new financing mechanism would be established. The support to EPAs would be channelled through a 'clearing house', which would facilitate the coordination among donors in terms of identification of needs, funding and monitoring. Such coordination could take place in the context of an enhanced a Regional Preparatory Task Force (RPTF) or relying on the multilateral initiatives such as the (Enhanced) Integrated Framework for LDCs or the Joint Assistance Strategy.¹⁰ Alternatively a new coordination mechanism could be established (e.g. Joint EPA Council, envisaged in the EC Negotiating Mandate as future fora to ensure that the EPA implementation runs smoothly).

Some elements for discussion

This option for a EPA support modality responds to the need for enhanced donors' coordination and harmonization, in line with aid effectiveness guidelines. However, a coordination and monitoring body alone may not be the most efficient tool to bridge development support demands and responses, to move expeditiously from needs analysis to implementation and maximize access to resources. A management structure to effectively involve ACP recipients would have to be carefully crafted to ensure local ownership. Likewise, the legal status of such 'clearing house' in relation to the Cotonou Agreement development cooperation instruments and the EPA legal texts would have to be specified, as 'best endeavour' commitments may pose risks in terms of enforceability of effective coordination and monitoring.

*Regional funds**Key features*

Some regionally owned mechanisms could be used to provide funding to support EPA implementation. In this case the channel for delivery of EPA-related support would be a regional mechanism accessible only to members of a specific EPA region. It could be administered by a regional institution, either the regional secretariats/commissions or regional development banks. The COMESA Fund is a good example (see Box 1).

Some elements for discussion:

Regional funds have the advantage of being fully integrated and owned by the regional Secretariat and Member States. This approach would support one of the major objectives of the EPAs, namely strengthening the regional integration process. Many, including the EC and EU Member States, recognize that regional funds have the advantage of being part of a fully owned regional framework of cooperation among ACP members of a regional grouping, including the use of internal procedures instead of those of the donors. Regional funds could also facilitate regional coordination and the identification of the most effective aid modalities according to the regional needs.

For such regional funds to be functional some pre-conditions have to be met: a consensus at the regional level to create such a mechanism, it should include a mechanism of redistribution to ensure the weak members are not excluded, sufficient

capacity in terms of planning, financial management, reporting and legitimacy of the regional organisation towards the Member States and other donors. Other issues to be considered in such a scenario included the integration in the regional dynamic, how this would facilitate coordination, whether it would strengthen ownership and local capacity, the opportunity to leverage public and private capital. In this regional scenario, the question of access to funding for regional members versus members of the regional EPA negotiating group will need to be addressed as well.

Box 1
An interesting example:
the COMESA Fund

The COMESA Fund has now been ratified by the appropriate number of COMESA Member States for it to become operational. It is composed of an Infrastructure Facility and an Adjustment Facility. The latter aims at enabling eligible countries to continue with a macro-economic reform programme in the framework of a regional integration process by removing budgetary constraints. The Infrastructure Facility will allow eligible countries to address the supply side constraints linked to infrastructure. It will be used as a leveraged fund and will be flexible enough to use grants, concessional and contributions from the private sector. Both ownership and some control over the disbursement of funds from the donors would be guaranteed by the decision making process: the votes of the management committees for both facilities would be split between the Member States on the one hand and donors and international financial institutions (IFIs) on the other hand contributing to these Facilities. Support will take the form of direct budget support in the case of the Adjustment Facility.

COMESA has already made clear that aid for trade funding and specifically funding related to the implementation of EPAs should be channelled through those facilities whatever their source would be: NIPs/RIPs, intra-ACP facilities (i.e. energy facility, potential EPA facility ...), EIB, EU Member States, multilateral donors, other sources. It is now in the process of becoming operational and most funds allocated to the ESA region under the 10th EDF should be channelled through the COMESA Fund.

*Multilateral Aid for Trade**Key features*

Under this scenario the specific needs related to EPA adjustment are addressed under the general framework of multilateral initiatives on Aid for Trade. There is indeed a strong overlap and complementarity between the trade-related reforms and adjustments required by an EPA, under regional integration and under the WTO (in terms of market opening, erosion of preferences, tariff revenue losses and fiscal reforms, exporting and other supply-side capacity, infrastructure, institutional and regulatory development, etc.). The scope and mechanism of aid for trade at multilateral level, however, remain to be determined as the debate over it at the WTO is still ongoing. Such a mechanism, addressing EPA as well as other trade-related needs of ACP, could be administered by the WTO, other multilateral agencies like the WB and IMF, or by regional organizations like African Development Bank (ADB), Inter American Development Bank (IDB), and Asian Development Bank.

Some elements for discussion

Addressing EPA development support in the context of multilateral Aid for Trade would avoid duplication of assistance programmes and structures for ACP countries. This option however would remove the discussion from the specific ACP-EU context and would tie the details of the required EPA-related support to the outcomes of the WTO process, with no certainty in terms of time frames, specific delivery mechanisms and management structures, and no predictability of involved financial resources. The issues of programming of the funds and earmarking of resources would become of paramount importance for the ACP to effectively obtain adequate and timely EPA-related assistance.

EPA-specific support mechanism

A second set of scenarios would envisage the establishment of a new financing mechanism specific to the adjustment needs and accompanying reforms arising from the implementation of EPAs.

All ACP fund

Key features

Such an intra ACP-Facility could take different formats. A new all-ACP fund could be created to address specifically EPA-related needs. It would be accessible to all ACP countries and regions and would be centrally managed. Such a fund could be tailored to ACP needs or specific cross-cutting needs. Alternatively such an EPA facility could earmark funds within the intra-ACP envelope, to be channelled through nationally or regionally owned mechanisms when they exist, thus applying a subsidiarity principle.

With regards to the sources of such all ACP fund, part of the 10th EDF all ACP envelope could be used to finance this EPA Facility. The intra-ACP envelope, however, is not subject to 'rolling programming' like national and regional envelopes. This leaves more flexibility for financing decisions, and is used by the EC and the ACP to flag new political priorities. The question of the uncommitted funds of the 9th EDF at the end of 2007 is also still pending. A Community Declaration at the joint ACP-EC Council of Ministers in June 2006 has left the door open for a potential transfer of these funds into the reserves of the 10th EDF by unanimity¹¹. This was directly linked with ACP structural adjustment costs and needs related to the implementation of EPAs.

Some elements for discussion

In case of a new all ACP facility it would be important to consider how to avoid the pitfalls of a vertical fund? How to ensure that not only strongest ACP countries have access? How to coordinate with the national development strategies and ensure ACP ownership? According to which criteria the funds would then be allocated? Whether it would be possible to use such a Facility as a way to channel funds through regionally or nationally owned mechanisms? and how this would be coordinated with the aid for trade initiative?

Thematic funds

Key features

An option is to establish dedicated channels of support to address specific areas of EPA-related adjustment and accompanying measures, such as an 'infrastructure fund', a 'fiscal revenue loss' mechanism, a 'social adjustment fund' for relocation of workers

for industries suffering from competition with EU imports, a 'competitiveness fund' specifically for private sector, a 'diversification fund' for the traditional agricultural sectors, etc. Such funds would only be accessible in relation to a certain areas of intervention and could be managed either at a national, regional or all ACP level.

Some elements for discussion

Specific thematic funds could be designed under the framework of existing facilities, for instance earmarking for EPA funds managed through the EU Infrastructure Trust Fund for Africa or the EU-ACP Energy and Water initiatives. A structure such as the EU Infrastructure Trust Fund for Africa has the advantage that EU Member States can contribute to the Trust Fund, thus contributing to a better coordination at the EU level. Alternatively, new mechanisms could be established: the effectiveness of a mechanism such as the FLEX¹² would need to be studied when exploring these scenarios more in depth. The EC is also considering setting up regional integration budget support to cover loss of fiscal revenues due to EPAs thus directly channelling funds through facilities such as the COMESA adjustment facility.

National/Regional Funds Arrangement

Key features

This scenario would envisage for each ACP country to create a national or regional EPA Adjustment Fund. It would be for each ACP Government / region to design the most appropriate domestic mechanism to manage such funds, pool the different sources (bilateral or multilateral donors as well as private capital both from national and international markets) and channelled into one national/regional fund. The national/regional mechanism could be run by a government/regional agency, a national/regional development bank, the private sector or public private partnership.

Some elements for discussion

It would be easier under this scenario to devise a management structure that guarantees local ownership as each ACP country/region would administer directly the funds allocated from different sources. Given the national/regional level as delivery target and the specificity to local needs and conditions, a likely result could be for an EPA 'national/regional fund' to combine NIP/RIP

resources from the EDF, domestic savings and bilateral aid from donors who deploy specific country/regional programmes. Other dimensions of this option, such as the legal status vis-à-vis the EPA (given that legal texts will be regional agreements) and the relationship with the existing NIP/RIP process, would have to be analysed carefully. In the case of a regional fund, appropriate coordination at the regional level among countries will be required, notably with regard to the specific objectives, structure, mechanism of delivery and accountability of the regional fund, taking into account both regional and national needs.

Donor's EPA Programming

Key features

A donor may be willing to earmark money for EPA adjustment, while maintaining the management and ownership of those resources. This could take the form of a special instrument, managed by the donors to whom any ACP actor could submit request for funding depending on its specific features and EPA-related adjustment needs.

Some elements for discussion

Under this scenario, the effectiveness of the EPA development support would depend entirely on the strategic choices of the involved donor and the features of its programmes. The involvement of ACP countries in the design and programming of such assistance would be questionable. This scenario envisages no particular legal status of the EPA-related support mechanism with respect to the Cotonou Agreement or the EPA texts, but such an option would require some coordination among donors, in line with aid effectiveness principles.

Conclusions

The appropriate support to address the EPA related adjustment and accompanying measures will play a major role in determining the capacity of the ACP countries and regions to realise the potential benefits from EPA-related commitments and reforms. In this regard, the delivery mechanisms to EPA support are of key importance.

This *InBrief* attempts to highlight some of the factors that need to be considered and provide an initial list of possible scenarios to channel support for EPAs. The framework

suggested here can then serve to elaborate and assess various options for EPA development support. In doing so, further attention and exchange of views would notably be useful on the following critical issues:

- **The process to link A4T with the EPA negotiation and implementation.** The GAERC formally decided on 16-17 October 2006 to address EPA-related adjustments under the broader framework of A4T. Many aspects have yet to be specified, notably on how to operationalise the European commitments, on the articulation for the A4T framework itself and on the practical way to integrate EPA support in this framework. In particular the elaboration of the 2007 Joint EU Aid for Trade Strategy and its relationship with EPAs will be important. Linkages and synergy with the 10th EDF programming should also be better identified.
- **The amount and predictability of financial support effectively available for EPA-related issues from EU Member States and the EC.** It would be useful to have a clearer overview of the European resources already avail-

able for ACP countries which could cover EPA-related needs, as well as to identify the additionality component of the European commitments, including on the earmarking of funds for ACP countries needs on EPAs in the context of its A4T commitments and the predictability of European (EC and EU) support for EPA-related measures.

- **The scope of support.** Given the GAERC decision that A4T for EPAs will only cover trade policy and regulations and trade development activities, how will other needs arising from EPAs (such as trade-related infrastructure, building productive capacity and trade-related adjustment) concretely be addressed? The most appropriate mechanisms of delivery for different categories of support to EPA needs should be explored further.
- **The coordination among donors.** Effective coordination among various EU bilateral donors, the EC (notably for the 10th EDF) and other international donors should be ensured. Although EU policy-makers are against additional financial envelope

specific to EPA at the Community level, the EU Member States agreed to provide bilateral funds for A4T on top of the EDF. However, no detailed discussion had been conducted so far on how to coordinate different interventions to make EPA support more effective and predictable for the full period of EPA implementation.

- **Best practices in existing trade-related support by different donors.** There cannot be a 'one-size-fits-all' approach for development support to EPA as each ACP region and country will have specific needs arising from EPA implementation. To make A4T for EPAs operational and effective, it is important to identify and share lessons on successful cases of trade-related technical assistance and capacity building, and learn from less successful experiences.

ECDPM is committed to contribute to this discussion, by conducting topical analysis and facilitating targeted informal dialogue among key stakeholders (in the ACP and Europe).

Table 1 Potential scenarios

Scenarios for an EPA-related support mechanism	Source of funding	Targeted level of delivery	Scope	Aid Effectiveness				Legal status of Mechanism & enforceability	
				Ownership & management structure	Coordination and institutional issues	Aid delivery mechanism & procedures	Predictability		
	EDF Member States Other donors Capital markets	National Regional All ACP	Type of needs	Public-private partnership Share-holders?	Programming Monitoring Modalities	Vertical fund PMU Budget support		vis-à-vis CPA	vis-à-vis EPA text
No Support Mechanism									
<i>EDF10 NIPs/RIPs only</i>									
<i>Coordination/monitoring Body only</i>									
<i>Regional funds</i>									
<i>Multilateral Aid for trade</i>									
EPA-specific Support Mechanism									
<i>All ACP EPA adjustment facility</i>									
<i>Specific thematic EPA funds</i>									
<i>National/Regional Funds Arrangement</i>									
<i>Donor's EPA Programming</i>									

Notes

- 1 See for instance General Affairs and External Relations Council (GAERC) 'Conclusions on Aid for trade' (December 2005) and European Commission 'The Trade and Development Aspects of EPA Negotiations' (Commission Staff Paper, October 2005).
- 2 Decision N°2/LXXXIII/06 OF THE 83rd Session of the ACP Council of Ministers held in Port Moresby from 28th to 31st May 2006 on EPAs.
- 3 Paris Declaration on Aid Effectiveness, 2 March 2005, www.oecd.org/document/18/0,2340,en_2649_3236398_35401554_1_1_1_1,00.html
- 4 Recommendations of the Task Force on Aid for Trade, 27 July 2006, WTO document WT/AFT/1, <http://docs.wto.org/DDFDocuments/t/WT/AFT/1.doc>
- 5 Respectively at the G8 Summit in July 2005 and the Sixth WTO Ministerial Conference in Hong Kong in December 2005.
- 6 G8 Summit, July 2005, www.g8.gov.uk.
- 7 General Affairs and External Relations Council (GAERC), December 2005 and Sixth WTO Ministerial Conference in Hong Kong, December 2005.
- 8 The EU also committed at the 2005 G8 Summit to increase its external aid to Africa by US\$ 25 million a year, thus doubling it.
- 9 The EC has been undertaking institutional assessments of the African Regional Economic Communities (RECs) in order to see whether it could provide financial support using a contribution agreement (direct support to the budget of the regional organization).
- 10 In some ACP countries governments and the donor community have launched the Joint Assistance Strategy as a mechanism to focus and organise development assistance to support the implementation of national development goals as defined in the National Development Plan, PRSP, etc.
- 11 Declarations concerning the multi-annual financial framework for the period 2008-2013 agreed at the 31st ACP-EC Council of Ministers Port Moresby, Papua New Guinea 1 and 2 June 2006. http://eur-lex.europa.eu/LexUriServ/site/en/oj/2006/l_247/l_24720060909en00220025.pdf
- 12 FLEX is the EU instrument to compensate ACP countries for the loss of short term fluctuations in export earnings.

List of acronyms

A4T	Aid for Trade	ESA	East and Southern Africa	NAO	National Authorising Officer
ACP	African, Caribbean and Pacific countries	EU	European Union	NIPs	National Indicative Programmes
ADB	African Development Bank	GAERC	General Affairs and External Relations Council	ODA	Official Development Assistance
COMESA	Common Market for Eastern and Southern Africa	GNI	gross national income	PMU	Project Management Unit
CSPs	Country Strategy Papers	IDB	Inter American Development Bank	PRSP	Poverty Reduction Strategy Papers
CPA	Cotonou Partnership Agreement	IF	Integrated Framework	RECs	African Regional Economic Communities
DTIS	Diagnostic Trade Integration Study	IFIs	international financial institutions	RIPs	Regional Indicative Programmes
EC	European Commission	IMF	International Monetary Fund	RPTF	Regional Preparatory Task Force
EDF	European Development Fund	JAS	Joint Assistance Strategy	RSPs	Regional Strategy Papers
EIB	European Investment Bank	JITAP	Joint Integrated Technical Assistance Programme	WTO	World Trade Organization
EPA	Economic Partnership Agreement	LDCs	Least- developed countries		

EPA Development Support *InBrief* series

The purpose of this *InBrief* series is to inform and stimulate the discussion among African, Caribbean and Pacific (ACP) and European Union trade and development stakeholders on the reforms, institutional development, accompanying measures and financial support necessary to enable ACP countries and regions to benefit from the potential opportunities that economic partnership agreements (EPAs) with the EU could offer for their sustainable development. The *EPA Development Support InBrief series* is part of the effort by ECDPM to provide regular information and analysis related to the EPA negotiations and the linkages between trade and development.

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EU with developing countries (www.ecdpm.org/ftainbriefs), and the *Overview of Regional EPA Negotiations InBrief* which provides an overview and regular updates on the EPA negotiations for each of the six ACP negotiating regions (www.ecdpm.org/regionalepainbriefs).

This *InBrief* on Possible scenarios for EPA-related support mechanisms was written by Sanoussi Bilal, Marie-Laure de Bergh, Francesco Rampa and Kathleen Van Hove (ECDPM).

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European Centre for Development Policy Management
Onze Lieve Vrouweplein 21
NL-6211 HE Maastricht
The Netherlands

Tel +31 (0)43 350 29 00 Fax +31 (0)43 350 29 02
info@ecdpm.org www.ecdpm.org

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